

FAST START

GENERAL INFORMATION ON
DEVELOPING A BUSINESS PLAN FOR A
PROSPECTIVE FEDERAL CREDIT UNION

TABLE OF CONTENTS

1. PURPOSE

2. BACKGROUND

3. OBJECTIVES

4. ACTIONS BEFORE CHARTERING: PROJ. LEADER DATE ACCOMP.

a.	Manager Selection	_____	_____
b.	Recordkeeping/ADP	_____	_____
c.	Insurance	_____	_____
d.	Checking Account	_____	_____
e.	Bylaws	_____	_____
f.	Policies and Procedures	_____	_____
g.	Forms	_____	_____
h.	Consumer Credit Reports	_____	_____
i.	Trades Affiliation	_____	_____
j.	Supervisory Committee	_____	_____
k.	Credit Committee	_____	_____
l.	Training	_____	_____
m.	LUA	_____	_____

5. ACTIONS AFTER CHARTERING: PROJ. LEADER DATE ACCOMP.

a.	First Meeting	_____	_____
b.	IRS Taxpayer Number	_____	_____
c.	ABA Routing Number	_____	_____
d.	Pilot Project for ADP	_____	_____
e.	Forms	_____	_____
f.	Notice to Membership	_____	_____

6. CONCLUSION

1. **PURPOSE:** To provide a set of suggested guidelines that will assist organizers of a new credit union in making timely decisions and controlling the process of beginning operations.
2. **BACKGROUND:** After the charter application has been reviewed by the regional office and an NCUA staff member has been assigned responsibility to investigate the proposal, a number of actions can be taken by the organizers in order to shorten the time it takes to begin actual operations after the charter is approved. The charter approval is the key midpoint in the process; before the approval date, the organizers can lay the groundwork for making various commitments - after the approval date, contracts can be signed and events set into motion.

The organizers must keep in mind also, that failure to begin operations within 60 days after the charter was approved is grounds for revocation. As stipulated under the *Federal Credit Union Bylaws*:

...Failure to commence operations within 60 days following receipt of the approved organization certificate (charter) is cause for revocation of the charter unless a request for extension of time has been submitted to and approved by the regional director.

3. **OBJECTIVE:** To provide a set of suggested actions that can be taken by the organizers in order to facilitate the process of beginning business. A timely start-up is essential to avoid losing the initial momentum and enthusiasm of those individuals making share pledges and volunteering to serve as officials.
4. **ACTIONS BEFORE CHARTERING:** The organizers should set up a system of frequent regular meetings to review progress and react to events. (As an example, holding meetings every two weeks at the same location, time, and day of the week.) The following actions should be assigned early in the process to specific individuals who will report their progress at each meeting and ask for assistance if necessary to move their projects forward:

Note: The Table of Contents can serve as a handy control agenda listing the assigned project leaders and recording the project completion dates.

a. **Manager Selection:** The most important decision is who will be manager of the credit union. Time is of the essence because activity speeds up as soon as the manager can take charge and control of the start-up process. If possible, a manager should be ready to start immediately when the charter is granted. In selecting a manager, applicants with prior credit union experience and a strong accounting background are preferred. A search committee should be appointed to:

- > advertise the opportunity in the locator service of the local credit league as well as local newspapers,
- > perform background reviews, keeping in mind that NCUA will be obtaining credit checks and conducting background investigations, and

- > conduct the interviews.

This process usually takes several months and should begin as early as possible. Although the manager may initially be part-time, advertising should stress the intermediate and long-term prospects; it can be difficult to attract well-qualified applicants for a part-time position, particularly for a newly chartered credit union.

b. Recordkeeping/ADP: Selecting a data processing system is the second top priority. The process of arranging for ADP is time consuming, typically needing three to six months if done soundly, and should start as early as possible. At least three software program vendors should make presentations to the organizers or the project leader.

(1) **Software:** The vendors making presentations should be asked to provide a list of all their clients, from which several local credit unions should be contacted to discuss advantages and disadvantages. Make sure to question the quality of the related service contract; reliability and responsiveness to the inevitable calls for help is very important.

(2) **Hardware:** Decide whether to buy or to lease from a vendor. Leasing can cost more, but also allows for easier updating as technology changes. Shorter period leases are preferable, even at higher cost. Hardware should not be a major factor in light of the broad availability and declining costs of suitable data processing platforms.

c. Insurance Coverage: Contact the bond and insurance company in order to arrange for the policy of protection for officials and volunteers. The policy should be obtained immediately after the charter is granted in order to begin protection for the decision-making. Ask that a representative attend a meeting to explain the insurance options. Decide on the exact coverage that will be obtained after the charter is issued. Acquire and prepare the application form, ready for signatures, immediately after the charter is granted.

d. Checking Account: Determine what system and server is desired for disbursing shares and loans. The decision should be influenced by how the members will be expected to cash share withdrawal checks. In the absence of ATM services and/or full teller operations with a large change fund, the members should be able to cash checks at a branch bank in the area. This typically requires that the checks be drawn on a credit union account at that bank. The individual responsible for arranging check cashing should solicit recommendations from other local credit unions. Once the organizers select a system, the forms to open an account should be obtained, but should not be completed until after the charter is granted. Decide whether to have single or dual signatures for check disbursements; having a dual signature requirement should be based on having several readily available check signers.

e. Bylaws: NCUA Publication 8001 *Federal Credit Union Bylaws* provides the organizers with the pre-authorized bylaws (and accompanying options), necessary for a federally chartered credit unions to operate under. Review these pre-authorized bylaws and:

- > determine which options are proper for the planned method of operation,
- > prepare copies of the recommended options for official approval,
- > discuss and give preliminary approval to the options, pending adoption after the charter is granted, and
- > obtain consensus on the options - preparatory for official approval immediately after the charter is granted.

f. Policies and Procedures: Begin capturing the decisions being made into a P&P Manual. A set of standard P&Ps is available on ADP diskette from vendors, such as the local credit union league. This will help the officials when they have to make changes to the manual. Selection of most procedures in a standard manual can be deferred until the manager is hired. The individual responsible for this action can solicit assistance and guidance from another credit union, with the objective of having a P&P Manual ready for adoption as soon as the charter is granted.

The most important policies to adopt, before forms can be ordered and operations commence, are:

- (1) Share account practices must be adopted.
- (2) Loan practices must be defined for managing the risk of lending. The methodology should be defined for the credit committee. The committee should be guided in how to evaluate borrowers' ability to repay loans, and how to evaluate adverse credit histories. Policy should be well defined and in writing, supplemented by a documentation system for subsequent review.
- (3) Investment activity must be carefully defined and controlled. Written policies should initially be streamlined, such as limiting all investments to the local corporate credit union, in order to avoid diverting management attention from developing daily operations. Investment authority should be defined, such as limiting the manager to making wire transfers between accounts at the corporate. Signature cards should be obtained and prepared, ready to send to the corporate soon after the charter is granted.

g. Forms: Request the forms supplier (from either the local credit union league or another vendor) to send a representative to discuss what initial forms are needed and to arrange ordering procedures. Most, if not all, forms can be generic off-the-shelf types. Personalizing forms with credit union name and logo can be deferred.

h. Consumer Credit Reports: Arrange to obtain consumer credit reports on members applying for loans. The selected agency should be contacted and the application obtained and made

ready for submission immediately after chartering. Application processing time is three to four weeks, with another week for installation. Lending cannot begin until the credit union can obtain the credit reports.

Typical costs for a system are:

- > \$500 onetime membership fee,
- > \$160 onetime to install a dedicated data line,
- > \$195 onetime software usage fee,
- > \$45 monthly service charge, and
- > \$50 monthly minimum usage fee, based on \$3.25 charge for each credit report (i.e., \$50 for from 1 to 15 reports, then \$3.25 each).

i. Trades Affiliation: Consider joining one or more of the trade associations. Affiliation is usually at nominal or no cost for a newly chartered credit union. Service representatives can provide advice and assistance on who to call to make arrangements for the various projects.

j. Supervisory Committee: Have an initial meeting to elect a chairperson and secretary. Take turns reviewing the *Supervisory Committee Guide for Federal Credit Unions* in order to become familiar with the committee's role. When the committee is fully organized, the chairperson should attend one of the organizer's meetings and report its readiness. The secretary should set up the committee's filing system. A secure file location is necessary, private from credit union staff, such as a locked file cabinet in the credit union or at a committee member's residence. File folders should be set up to document the following primary activities:

- (1) Annual audit reports and workpapers. If the committee is going to perform the audit, instead of hiring outside assistance, the audit workpapers on file should be those provided in the *Supervisory Committee Guide for Federal Credit Unions*.
- (2) Verification of accounts file. Every two years, the committee communicates with all members to find out if their account balances are correct. This typically takes the form of a "stuffer" added with the members' statements during one of the regular mailings at the end of an accounting period. The notice asks members to communicate with the committee directly if their account is in error.
- (3) Correspondence file. The committee will periodically communicate in writing with members and the regulatory agency concerning complaints.

k. Credit Committee: If there is to be a credit committee, the committee should have an initial meeting to elect a chairperson and secretary. They should then decide upon a standard time and place to conduct regular meetings once lending begins, such as every Monday, Wednesday, and Fridays initially until the workload is known. The secretary should obtain the

Credit Committee Minutes forms for recording committee decisions at each meeting. The chairperson should coordinate with the organizers to obtain the approved lending policies and loan documents.

If the credit union chooses the option of having loan officers instead of a credit committee, the loan policies and credit union bylaws should be adjusted accordingly.

l. Training: To ensure that the officials and staff understand their duties, a credit union training program should be instituted. Each official and staff member needs to be aware of their assigned job and become familiar with their responsibilities. This training program should encompass all required reading and may also take the form of *roll-playing* where staff and officials act out their tasks under the supervision of an experienced teacher or organizer. The goal of the program would be to have everyone both knowledgeable and comfortable with their assigned responsibilities.

m. Letter of Understanding and Agreement: In most cases, NCUA will require the prospective federal credit union's officials to enter into an agreement not to engage in certain activities. This agreement is for a limited term - usually two to four years. The officials should work with the NCUA staff member to determine the terms and conditions of the LUA which are satisfactory to all parties.

5. ACTIONS AFTER CHARTERING:

a. First Meeting: Immediately after receiving the charter:

- (1) Approve employment of the manager and of any pending management contract. If a manager is not yet selected, defer this action but continue giving priority to the search.
- (2) Approve and sign the contract(s) for data processing service. Prior coordination with the selected vendor can enable early installation of the equipment and program, in order to allow for training and a "pilot program" to test the system before opening day.
- (3) Approve the bond and insurance coverage for the officials and volunteers, as previously arranged. If available, sign and send the insurance form.
- (4) Approve individuals who are authorized to sign credit union checks for disbursing shares and loans. Complete the documents needed to operate the accounts.
- (5) Adopt the pre-authorized bylaws and desired standard amendments.

- (6) Adopt the Policies & Procedures Manual. At a minimum, approve the parameters for controlling shares, loans, and investments.
- (7) Approve and sign the contract for consumer credit reports.
- (8) Prepare the Report of Officials to send the NCUA regional office.

b. IRS Taxpayer Number: Apply to the local Social Security office for the transaction number. This action has to wait until after the charter number is issued.

c. ABA Routing Number: Apply for a wire transfer number from the Federal Reserve Bank for the local area. The same individual responsible for obtaining the checking account should also arrange for the ABA number. It takes from two to three weeks to acquire the number.

d. Pilot Project for ADP: Soon after installation, preferably at about four weeks before start of business, select a day to begin a pilot program to ensure that the record keeping is functional. The officials can open their share accounts, create a pilot loan, and conduct a test of the data processing program's ability to process the data and to generate reports. If possible, arrange to have the data processing provider present to help conduct the test, or at least be available by telephone to resolve problems.

e. Forms: At two weeks before opening day, order the start-up forms.

f. Notice to Membership: At one week before opening day, and only after the data processing pilot program has been successful, mail the opening day announcement to at least those individuals who made earlier deposit pledges, to solicit their membership and deposits. Include in the mailing:

- (1) Membership Card and Designation of Beneficiary,
- (2) Standard Disclosure Statement for Regular Share Accounts,
and
- (3) Your Insured Funds Brochure. (These can be order in bulk from the NCUA Publications office.)

6. CONCLUSION This guide was developed to assist in the development of newly chartered federal credit unions and is by no means complete. Each proposed credit union offers its own unique set of challenges and requirements. To assist in the organization of one takes time, effort, and above all patience. Considerable planning and dedication is necessary to ensure a new credit union's success. The reward though, will be a financial cooperative that is effectively serving the needs of its members.

FASTSTRT 7/01

